

Exhibit 1

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United States District Court
 Northern District of California, San Jose Division

VERIGY U.S. INC., a Delaware corporation

Plaintiff,

vs.

ROMI OMAR MAYDER, an individual;
 WESLEY MAYDER, an individual;
 SILICON TEST SYSTEMS INC., a
 California corporation; SILICON TEST
 SOLUTIONS LLC, a California limited
 liability corporation,

Defendants.

Case No. 5:07-cv-04330 (RMW) (HRL)

**Defendants' Sur-Reply in Opposition to Verigy's
 Ex Parte Letter-Motion to Strike Exhibit C**

Hearing: None

Judge: Hon. Howard R. Lloyd

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Introduction

This Sur-Reply addresses new matter that Verigy raised for the first time in its reply in support of its *ex parte* Letter-Motion to Strike Exhibit C.

First, Verigy introduced for the first time an argument that Exhibit C should be stricken under Federal Rule of Evidence 403. Second, Verigy filed an evidentiary declaration from its counsel, John Fowler, that introduces novel facts. Third, a significant portion of Verigy's reply brief discusses the new matter in Mr. Fowler's declaration.

A Sur-Reply is necessary and appropriate in this case, since the defendants would otherwise have no opportunity to address the new matter introduced by Verigy.¹

Argument

I. Rule 403 does not prohibit the court's consideration of Exhibit C

A. Exhibit C is highly probative

Verigy asks the court to strike Exhibit C under Rule 403 but provides no cognizable reason why. Rule 403 excludes relevant evidence "if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury, or by considerations of undue delay, waste of time, or needless presentation of cumulative evidence."

With no analysis of Rule 403 or its caselaw, Verigy asserts that "the probative value of Exhibit C is slight." In Verigy's discovery motion, the question before the court was whether the defendants were entitled to protect their privileges and privacy from abusive incursions — or whether they were delaying, as Verigy charged. Exhibit C proves that Verigy had previously given the defendants cause for concern. The court also apparently found Exhibit C to be highly probative, and its October 24 Order discussed Verigy's past "patently overbroad" conduct.²

B. Even if consideration of Exhibit C was an error, the error was "harmless"

Verigy does not seek to change the substantive outcome of its discovery motion. Neither the *ex parte* letter-motion nor the reply suggests that the court's conclusions were incorrect or that the

¹ See e.g., *Gambra v. International Lease Finance Corp.*, 377 F. Supp. 2d 810, 828 note 18 (C.D. Cal. 2005) (recognizing that it is appropriate to strike new matter from a reply brief, where a prejudiced party demonstrates that it contains new matter)

² Order on Plaintiff's Motion to Compel; October 24, 2007; at 3:16 – 4:2

1 protective protocol it ordered is flawed. By definition, an evidentiary error that does not affect the
 2 substantive outcome of the proceeding is "harmless."³ Rule 403 does not exclude evidence admitted
 3 by "harmless" error.⁴ Accordingly, there is no reason to strike the exhibit from the record.

4 **II. Verigy's new matter does not establish that Exhibit C was improper under Rule 408**

5 **A. John Fowler's declaration does not establish that Verigy contemporaneously believed** 6 **Exhibit C to be a settlement communication**

7 The declaration of John Fowler shows that Verigy requested acknowledgement from the
 8 defendants counsel "that our conference tomorrow [on July 18, 2007] is for the purpose of resolving
 9 issues regarding Verigy's trade secrets and that Section 1152 of the California Evidence Code applies
 10 to anything said during that conference." Mr. Fowler points to nothing other than his own
 11 understanding that Cal. Evid. Code § 1152 was to apply to *all* pre-litigation communications in this
 12 case — an understanding that was not communicated to the defendants until it became convenient for
 13 this motion. Verigy can point to no record that Mr. Fowler communicated his understanding to the
 14 defendants before they filed Exhibit C.

15 Instead, the record shows that Verigy asserted settlement-communication status for some
 16 specific communications but not for others. The conference call that Mr. Fowler refers to is one
 17 example. Other examples are given in pages 5–7 of the defendants' opposition brief. Verigy
 18 differentiated between these communications and others, where it did not appear to claim that status.

19 If Verigy had contemporaneously believed that the parties had agreed that *all* communications
 20 were for settlement purposes, it would not have gone out of its way to designate particular documents
 21 for that status. Even within the emails submitted by Verigy for this motion, Verigy differentiated
 22 between settlement documents attached to those emails and the text of the email chains.⁵

23 **B. Exhibit C was used for an allowed purpose**

24 The defendants used Exhibit C to negate Verigy's "contention of undue delay," which Rule
 25 408 expressly allows. Although Verigy has shown that Exhibit C proves that its counsel's statements

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 27 ³ *U.S. v. Gonzalez-Flores*, 418 F.3d 1093, 1099–1100 (9th Cir. 2005)

28 ⁴ *Gonzalez-Flores*, 418 F.3d at 1099–1100

⁵ See Fowler Declaration Exhibit A; Exhibit B to Verigy's *ex parte* Letter-Motion to Strike Exhibit C.
 See also Defendants' Opposition at pages 5–7 for a fuller discussion.

1 to this court were incorrect, the defendants did not use the exhibit to impeach those statements. The
 2 defendants simply did not discuss Mindy Morton's statements at the October 19 hearing about
 3 Verigy's future intentions. Instead, the defendants used Exhibit C to show that they were protecting
 4 legitimate privacy and privilege interests that were threatened by Verigy's *past* "patently overbroad"
 5 discovery requests.

6 Mr. Fowler testifies that the parties' agreed to use the rule of Cal. Evid. Code § 1152 — not
 7 Rule 408 for pre-litigation communications. Even if that were true, section 1152 would permit the
 8 defendants' use of Exhibit C. Like Rule 408, section 1152 bars the use of settlement communications
 9 to prove or disprove liability or the amount of a claim. The defendants submitted Exhibit C in the
 10 context of a *discovery motion*, however, which has no direct bearing on liability or damages. Thus,
 11 there was no danger that Exhibit C could be used for that purpose.

12 Unlike Rule 408, section 1152 does *not* bar the use of settlement communications to impeach
 13 credibility. Thus, even if the parties had agreed to abide by section 1152, the defendants would have
 14 been entitled to impeach Verigy's counsel with Exhibit C. However, since the exhibit was not used
 15 for that purpose, the distinction between Rule 408 and section 1152 in this case is purely academic.

16 **C. Any agreement between the parties to obey the law is irrelevant**

17 Even if the parties had agreed to abide by Rule 408, that agreement would be irrelevant.
 18 Since they were already bound to obey the law, such an agreement would not change the parties'
 19 rights and obligations. If the a particular document is a settlement communication, then Rule 408
 20 applies, whether the parties agreed in advance or not. Such an agreement could have meaning only if
 21 the parties agreed to *modify* Rule 408 for this case. Since Verigy does not suggest an agreement to
 22 modify Rule 408, any alleged agreement is irrelevant.

24 Dated: November 16, 2007

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/s/

Attorneys for Defendants Romi Mayder, Wesley Mayder,
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